

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**FY 1997 BUDGET FOR THE DOMESTIC DEPENDENT
ELEMENTARY AND SECONDARY SCHOOLS**

Report No. 97-126

April 11, 1997

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Department of Defense

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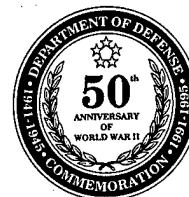
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Acronyms

ADP	Automated Data Processing
DDESS	Domestic Dependent Elementary and Secondary Schools
DoDEA	Department of Defense Education Activity
O&M	Operation and Maintenance
STARS	Standard Accounting and Reporting System



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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April 11, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DEPUTY ASSISTANT SECRETARY OF DEFENSE
(PERSONNEL SUPPORT, FAMILIES, AND
EDUCATION)
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION
ACTIVITY**

**SUBJECT: Audit Report on the FY 1997 Budget for the Domestic Dependent
Elementary and Secondary Schools (Report No. 97-126)**

We are providing this report for your information and use. This report is one in a series of reports on financial management at the Department of Defense Education Activity. The report discusses the accuracy of the Domestic Dependent Elementary and Secondary Schools FY 1997 President's budget for Operation and Maintenance funds. Management comments on a draft of this report were considered in preparing the final report. We considered management comments on a draft of this report in preparing the final report.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Walter L. Loder, Audit Project Manager, at (703) 604-9413 (DSN 664-9413). See Appendix D for the report distribution. The audit team members are listed on the inside back cover

David K. Steensma

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Deputy Assistant Inspector General
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Office of the Inspector General, DoD

Report No. 97-126
(Project No. 6LA-2011.02)

April 11, 1997

FY 1997 Budget for the Domestic Dependent Elementary and Secondary Schools

Executive Summary

Introduction. This report is one in a series of reports issued on financial management at the Department of Defense Education Activity (DoDEA). The report discusses the accuracy of the Domestic Dependent Elementary and Secondary Schools (DDESS) FY 1997 President's budget for Operation and Maintenance (O&M) funds. In FY 1995, the DDESS was allocated \$285.8 million and obligated \$284.3 million in O&M funds. The FY 1995 DDESS obligations were the basis of the FY 1997 President's budget submitted in March 1996. The FY 1997 President's budget for DDESS for O&M funds was \$295.1 million.

Audit Objectives. The primary audit objective was to assess internal controls and compliance with laws and regulations to support our audit of the DoD-wide financial statements required by the Federal Financial Management Act of 1994, Public Law 101-356. Additional objectives were to review and to test accounting transactions to validate the effectiveness of the accounting controls. Specifically, we determined the accuracy of the data used to prepare the DDESS FY 1997 President's O&M budget.

Audit Results. The DDESS budget preparation process needed improvement. Specifically, the O&M appropriation portion of the DoDEA FY 1997 President's budget for DDESS was overstated by about 3.7 percent. The budget estimates were based on FY 1995 obligations. The FY 1995 obligations were higher than needed because they included funds the school districts we visited received and spent because of overstated or inconsistent student data used to justify their budgets; unneeded yearend spending, purchases of goods or services without a bona fide need and funds used to fund prior year expenses; and funds for the acquisition of items that should have been purchased with Procurement funds. As a result, the budget for 11 of 16 DDESS school districts and DDESS Headquarters was overstated by about \$11 million. We are not making any recommendations because management has taken or plans to take corrective action.

Management Comments. The Chief, Internal Review and Audit Oversight Office, DoDEA, provided comments on the draft report. DoDEA indicated that corrective actions have been taken to correct the issues discussed in the report. However, DoDEA did not agree that student enrollment data were overstated and that its actions precluded the potential overstatement of the FY 1998 President's budget because of the overstatement of student enrollment data. DoDEA also stated that the DDESS school districts used normal procurement procedures to purchase automated data processing. In addition, DoDEA stated that the initial funding for the school districts is the basic per pupil cost, which makes comparison with local educational agencies possible. Finally, DoDEA stated that reconciliation between source documents and the various accounting reports is a function of the Defense Finance and Accounting Service. DoDEA comments are discussed in Part I and the complete text is in Part III of this report.

Audit Response. We congratulate DoDEA for initiating corrective actions. However, on December 17, 1996, the Under Secretary of Defense (Comptroller) issued Program Budget Decision No. 018C reducing the overall DoDEA budget for FY 1998 by \$2.5 million and FY 1999 by \$2.6 million because of overstated student enrollment. The school districts identified in the report did not go through established DoDEA channels to acquire automated data processing equipment. The initial O&M funding should not be the basis for calculating the cost per pupil at DDESS school districts. In its submissions for the President's budget, DDESS includes all operating expenses funded with O&M funds. According to the DoD Financial Management Regulation, volume 6, "Reporting Policy and Procedures," February 1996, DoD Components that are customers of the Defense Finance and Accounting Service are responsible for ensuring the accuracy, completeness, timeliness, and documentary support for all data generated by the customer (DoDEA) and input into the finance and accounting systems or included in financial reports. Therefore, reconciliation of financial reports to sources documents is the responsibility of DoDEA.

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Part I - Audit Results

Audit Background

The Chief Financial Officers Act of 1990; Public Law 101-576; and United States Code, title 31, sections 3515 and 3521 (31 U.S.C. 3515 and 3521), require audits of financial statements of Defense agencies. They require Government agencies, including DoD, to prepare annual financial statements. Further, the laws require the financial statements to be audited in accordance with generally accepted government auditing standards. This audit is one in a series on financial management at DoDEA.

Mission of the Department of Defense Education Activity. The Department of Defense Education Activity (DoDEA) manages and supervises the Domestic Dependent Elementary and Secondary Schools (DDESS) and the Department of Defense Dependents Schools. DDESS provides pre-kindergarten, elementary, and secondary education to eligible DoD dependents and dependents of other Federal civilian employees residing on Federal property in 16 school districts in 7 states and Puerto Rico. The Department of Defense Dependents Schools provide kindergarten, elementary, and secondary school education to DoD and other U.S. Government dependents at overseas duty stations. The Department of Defense Dependents Schools also pays tuition for students overseas in non-DoD schools.

DoDEA Funding for DDESS. The DoDEA receives and allocates to DDESS appropriations for Military Construction, Operation and Maintenance (O&M), and Procurement. In FY 1995 DoDEA allocated to DDESS \$1.5 million in Military Construction funds, \$285.8 million in O&M funds, and \$1.4 million in Procurement funds. In turn, DDESS Headquarters, allocated the funds for its headquarters operations and its 16 school districts through the Chief of Naval Education and Training, Pensacola, Florida. The Chief of Naval Education and Training issued allotment and suballotment authorization documents establishing funding targets for school districts. The DDESS school districts obligated funds against their funding targets. The DoDEA FY 1997 President's budget for O&M included \$295.1 million for DDESS.

DoDEA Budget Formulation Process. In any current fiscal year, the obligations from the prior fiscal year form the basis for the then year President's budget submission. For example, in FY 1996, the actual FY 1995 obligations were used as the basis for the FY 1997 President's budget. Similarly, the FY 1996 obligations become the basis for the FY 1998 President's budget submission. Based on factors such as student enrollment and inflation, the actual obligations are adjusted to derive the budget submission.

Audit Objectives

The primary audit objective was to assess internal controls and compliance with laws and regulations to support our audit of the DoD-wide financial statements required by the Federal Financial Management Act of 1994, Public Law 101-356. Additional objectives were to review and to test accounting transactions to validate the effectiveness of the accounting controls. Specifically, we determined the accuracy of the data used to prepare the DDESS FY 1997 President's O&M budget.

Basis for FY 1997 Budget for Operation and Maintenance Funds

The DDESS budget preparation process needed improvement. The DDESS FY 1997 President's budget for O&M was overstated by about \$11 million for 11 of the 16 DDESS school districts and DDESS Headquarters. The condition occurred because the DDESS used actual FY 1995 obligations to justify the FY 1997 President's budget. The FY 1995 obligations were higher than needed because they included:

- o \$5.6 million the school districts we visited received and spent because of overstated or inconsistent student data used to justify their budgets,

- o \$5 million of unneeded yearend spending, \$458,000 in purchases of goods or services without a bona fide need and \$241,618 used to fund prior year expenses, and

- o funds for acquisition of items that should have been purchased with Procurement funds.

DDESS management has taken or plans to take appropriate actions on the audit issues discussed in this report.

Student Enrollment Data

The student enrollment data reported to the DDESS Headquarters was either inaccurate or inconsistent among the school districts we visited. DDESS Headquarters used the student enrollment data in its budget formulation process and allocation of funds for the school districts. For FY 1995, the DDESS school districts were budgeted and allocated funds on the basis of their student enrollment data as of September 30, 1993. We estimated that 8 of the 11 school districts we visited were allocated and spent \$5.6 million based on the overstated or unsupported student data they reported to DDESS Headquarters. That amount caused the FY 1997 President's budget to be overstated. See Appendix C for more details.

Accuracy of Student Enrollment Data. The student data that DDESS Headquarters used to justify the President's FY 1997 budget was overstated. DDESS Headquarters used the actual student enrollment of 38,595 to prepare its President's budget estimates for FY 1995 through FY 1997. The data were reported to DDESS Headquarters by the school districts and included either enrollment, membership, or average daily attendance. Enrollment is the number of students registered in a given school district at a given time, generally at the beginning of the school year. Membership is the actual number of students in each class as of the last day of the reporting period. Attendance is the actual number of students in each class on a given day. Average daily attendance is the aggregate attendance during a reporting period divided by the number of days in the reporting period. In computing the average daily attendance, only the days on which students are under the guidance and direction of teachers are considered.

The 11 school districts reported student enrollment data of 25,911, which included enrollment, membership, or average daily attendance data. We verified the reported data to sources documents at the school districts. The data reported by the 11 school districts we visited were overstated by 895 students. One school district could not provide us with support for the data it reported to DDESS Headquarters. The data for two schools at the school district were unavailable. DDESS had no regulations on the retention of student enrollment data. As a result, an adequate audit trail was not maintained.

We reviewed the student enrollment data for school years 1993/1994 and 1994/1995 submitted to DDESS Headquarters and compared the student data to supporting documentation maintained at the school districts. For example, the Maxwell Air Force Base school district, Montgomery, Alabama, reported to DDESS Headquarters a student average daily attendance of 493 for school year 1993/1994. However, actual average daily attendance was 443. In addition, student enrollment was expected to decline at least through school year 1997/1998 because 25 percent of on-base housing was closed for renovation. However, DDESS used the 493 to prepare the school's budget for FY 1995 through FY 1997. DDESS Headquarters determined the total funding before computing the cost per pupil of each school district. The school districts obligated all funds they received in FY 1995 and the obligations were the basis of the FY 1997 President's budget. We estimate that using the cost per pupil computed by the DoDEA budget officer, the inaccuracies in the student data submitted to DDESS Headquarters caused the FY 1997 President's budget to be overstated by about \$5.6 million. See Appendix C for more details.

Consistency of Student Enrollment Data. The student enrollment data submitted to DDESS Headquarters was not consistent among the school districts. The condition occurred because DDESS Headquarters issued instructions to the school districts that were not consistent. On June 8, 1994, DDESS Headquarters issued a memorandum to the superintendents of the school

Basis for FY 1997 Budget for Operation and Maintenance Funds

districts on O&M budget guidance for FYs 1996 and 1997. Attached to the memorandum were DDESS fiscal and general guidance. The fiscal guidance stated that the school districts' FY 1995 funding was based on September 30, 1993, enrollment and the funding was to be adjusted based on the receipt of September 30, 1994, enrollment data. The general guidance requested the school districts to use September 30, 1993, average daily attendance to prepare their budgets.

Three school districts submitted enrollment data to DDESS Headquarters. The other eight school districts submitted to DDESS Headquarters membership data on forms labeled as average daily attendance data. The inconsistent student data affected the DDESS FY 1997 President's budget for O&M. For example, on September 30, 1993, the Robins Air Force Base school district, Warner Robins, Georgia, reported a student enrollment of 930, membership of 928, and average daily attendance of 895. We verified data to the records at the school district. When reporting the enrollment data to DDESS Headquarters, the school district did not make adjustments for the two students that had withdrawn from school since enrollment. The school district was funded on the 930 enrollment rather than the 895 average daily attendance, as specified in the DDESS Headquarters general guidance. DDESS Headquarters also ignored its fiscal guidance and did not make adjustments to the funds allocated to the 11 school districts based on the September 30, 1994, enrollment data it received. Because the school districts obligated all the funds they received in FY 1995, which were the basis for the FY 1997 President's budget, the FY 1997 budget was overstated.

Corrective Actions Taken. As a result of our audit, the Director, DDESS, issued a memorandum on July 9, 1996, to the school districts. The memorandum requested the school districts to report average daily membership data, effective school year 1996/1997. Average daily membership is the aggregate membership of a school district during a reporting period divided by the number of days in the period. The memorandum was issued too late to have an effect on the FY 1996 obligations, which is the basis for the FY 1998 budget. However, on December 17, 1996, the Under Secretary of Defense (Comptroller) issued Program Budget Decision No. 018C reducing the overall DoDEA budget for FY 1998 by \$2.5 million and FY 1999 by \$2.6 million because of overstated student enrollment.

Yearend Spending

The DDESS management spent excessively at yearend. Over \$5 million of O&M funds were allocated by DDESS Headquarters to the 11 school districts 12 days before the end of FY 1995. The obligations resulting from the

Basis for FY 1997 Budget for Operation and Maintenance Funds

excessive yearend spending inflated FY 1995 obligations that were used as a basis for the FY 1997 President's budget. As a result, the DDESS FY 1997 President's budget was overstated.

DDESS did not have adequate requirements documentation to support the purchase of automated data processing (ADP) equipment. The 11 school districts did not identify or request the ADP equipment before yearend FY 1995, and did not provide a requirement analysis to support the purchase. DDESS Headquarters allocated funds to the school districts at yearend, and the school districts decided to buy ADP equipment. As a result, the school districts did not use normal procurement procedures to purchase ADP equipment. For example, the Fort Stewart school district, Fort Stewart, Georgia, attempted to obligate \$266,453 in O&M funds at yearend FY 1995 for ADP equipment through a base contracting office. The base contracting office refused the request because it did not have adequate lead time to process the procurement before the end of FY 1995. The school district used a Navy procurement office in Pensacola, Florida, which identified a contractor who could provide the ADP equipment within the short time frame. The Navy charged the Fort Stewart school district a procurement fee of \$56,000 to purchase \$210,000 in ADP equipment.

In addition to the \$5 million of O&M funds, at least \$458,000 was expended for goods or services that were not bona fide needs of the fiscal year. Under the bona fide need rules, General Accounting Office, Principles of Federal Appropriation Law, volume 1, July 1991, O&M funds can be obligated to meet legitimate needs arising in the fiscal year. An appropriation may not be used for future needs after the period of availability of the fund has expired. O&M funds are annual appropriations and cannot be used for future needs of DoDEA. On August 8, 1995, the Camp Lejeune school district was given \$458,000 of FY 1995 O&M funds to "alleviate next year's anticipated shortfall in the FY 1996 O&M budget." The school system used the funds to procure items outlined in its FY 1996 budget.

In FY 1995, DDESS Headquarters also improperly used \$241,618 in O&M funds to pay for FY 1994 school bus transportation contracts. Under the bona fide needs rules, current year appropriation generally, cannot be used to fund prior year obligations because if such funding were allowed, expenditures of the prior year may exceed the funds available for that year. A potential Antideficiency Act violation may then occur. We did not observe any potential Antideficiency Act violation because of the DDESS funding of prior year obligations with current year funds. However, the improper funding increased the basis for the FY 1997 President's budget, thus overstating it.

There were also inconsistencies in the funding of certain operating expenses among the DDESS school districts. The DDESS regular school year runs from August to June. DDESS funded the school districts on a fiscal year basis

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starting in October and ending in September. As a result, current fiscal year funds were used to fund certain future school year expenses. At least two of the school districts reviewed funded school bus transportation for August and September of the school year using current fiscal year funds and the remainder of the school year with funds for another fiscal year. The other school districts funded school bus transportation for the whole school year with funds for one fiscal year. The DDESS school bus transportation contracts are continuing and recurring. According to the General Accounting Office Appropriation Law, volume 1, chapter 5, when services are continuing and recurring in nature, the contract is severable and the services must be charged to the fiscal year(s) in which they are rendered.

Corrective Actions Taken. Excessive yearend spending was also discussed in Inspector General, DoD, Report No. 96-181, "Management Control Environment for the Department of Defense Education Activity," June 28, 1996. In response to the audit report, DoDEA stated that to satisfy the bona fide need rule, it will encourage subordinate organizations to identify unfinanced requirements during the fiscal year that are not included in the authorized funding. In addition, DoDEA stated that it will implement a policy to allow the headquarters divisions to reprogram funds between program codes for items less than \$25,000 and then only during the months of August and September. This action may reduce the excessive yearend spending at DDESS.

Acquisition of Investment Items

The DDESS acquired investment items with over \$4.3 million in O&M funds, rather than Procurement funds. DDESS improperly used the O&M funds to acquire investment items, which overstated the FY 1995 O&M obligations. In addition, acquisition costs of investment items are one time purchases and not recurring expenditures and should not have been included in the basis for the FY 1997 President's budget formulation. Because the FY 1995 obligations were used as a basis for the FY 1997 President's budget, the FY 1997 budget was overstated.

The improper use of funds by DoDEA was also discussed in Inspector General, DoD, Report No. 97-078, "Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," January 23, 1997. An investigation of potential Antideficiency Act violations was recommended, and appropriate management actions should eliminate the deficiencies. Pending

the outcome of the investigations of the Antideficiency Act violations, the \$4.3 million in O&M funds used to procure investment items is not included in the \$11 million identified earlier.

Other Matters of Interest

During our audit, we identified pertinent matters that did not have material effect on the President's budget. However, they may have material effect on management performance measures. As a result, we are bringing them to the attention of DDESS management.

Cost Per Pupil Calculations. The cost per pupil that the DoDEA budget officer computed for the school districts were understated. The DoDEA budget officer took the initial funding for the school districts and divided the funding by the reported student data to obtain the cost per pupil. The budget officer did not include additional funding that the school districts received throughout the fiscal year in calculating the cost per pupil. For example, the budget officer calculated the cost per pupil at Maxwell Air Force Base school district as \$5,903 (initial funding of \$2,910,000 divided by reported student data of 493). However, the total FY 1995 funding to the Maxwell Air Force Base school district was \$3,233,000. Using the reported student data of 493, the cost per pupil should have been \$6,557, an understatement of \$654 per pupil. Further, because the student data that Maxwell Air Force Base school district reported was overstated by 50, the cost per pupil at the school district for FY 1995 was \$7,184 (\$3,233,000 divided by 450), an understatement of \$1,281 (\$7,184 minus \$5,903).

Reporting Expenses by Cost Element. Operating expenses that were reported on the DDESS Summary of Price and Program Growth (OP-32) Changes Report, by cost category, for the 11 school districts were misclassified. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 2A, May 1994, requires that all DoD Components submit OP-32 to justify their budgets. Total expenses in reports from the Standard Accounting and Reporting System (STARS) agreed with OP-32. However, operating expenses reported in STARS did not agree with OP-32 by cost element.

There were inconsistencies in the collecting and reporting of certain expenses at DDESS by cost element. For example, the 11 school districts classified school bus transportation on the OP-32 report under either cost category travel or other. One school district recorded school bus transportation as a contract expense in STARS, but reported it as travel in OP-32. As a result, STARS and OP-32 did not agree. DoD Regulation 7000.14-R, volume 1, May 1993, requires the cost of transporting students to schools to be classified as travel.

Basis for FY 1997 Budget for Operation and Maintenance Funds

In FY 1995, the DoDEA budget officer instructed the DDESS school districts to prepare OP-32 to agree with the financial reports generated by STARS. However, there were differences between the amounts reported by cost category in STARS and the documents supporting the STARS financial reports. Some of the differences were due to coding errors; however, many differences did not result from coding errors, and could not be explained by the operating personnel at the school districts. The amounts reported in STARS as salary expenses for the 11 school districts did not agree with the amounts on the source documents. However, the school districts reported the amounts from STARS on their OP-32 reports rather than performing a reconciliation between the amounts on the STARS reports and the source documents. For example, records at the Fort Campbell, Kentucky, school district for salary expense exceeded the amount reported in STARS report by \$73,773.

Additionally, in FY 1995, the DoDEA budget officer adjusted the obligations reported in STARS to agree with Standard Form 1176, "Report on Budget Execution." The budget officer stated that STARS was adjusted to match Standard Form 1176 because it was the official report transmitted to the Under Secretary of Defense (Comptroller). Standard Form 1176 summarizes the status of DoDEA appropriations. Again, a reconciliation between STARS and Standard Form 1176 was not performed to determine the reason for the differences.

The DDESS personnel made accounting classification coding errors in recording items in STARS at the school districts. We believe the errors occurred because DDESS did not have standard operating policy and procedures for coding and classifying transactions input into STARS. For example, a standard operating policy or procedure providing a dollar threshold for coding and classifying expenses as purchases of equipment or supplies and materials was not established. As a result, one school district coded an electric cord costing \$4.50 as equipment, because it would be attached to equipment. Still another school district classified an item as equipment if its acquisition cost exceeded \$250, and if it met the description of property, plant, or equipment. Another school district coded a transaction to remove existing carpeting and replace it with Government-furnished carpet, as supply. DoD Regulation 7000.14-R, requires the cost of items consumed or expended within 1 year, converted in the process of construction or manufacturing, or used to form a minor part of equipment or fixed property to be recorded as supply and materials. The cost of off-the-shelf items would be included under the investment threshold. The regulation also allows DoDEA to classify as supplies and materials the cost of other property of little monetary value that does not meet any of the three criteria listed above.

Summary

The DDESS budget preparation process needed improvement. Specifically, the O&M appropriation portion of the DoDEA FY 1997 President's budget for DDESS was overstated by about 3.7 percent. The budget estimates were based on FY 1995 obligations. The FY 1995 obligations were higher than needed because they included funds that the school districts received and spent because of inaccurate or inconsistent student data; excessive yearend spending; purchases of goods or services without a bona fide need; funds for the acquisition of items that should have been purchased with Procurement funds; and inconsistencies in funding of school bus transportation costs. As a result, the budget for 11 of 16 DDESS school districts and DDESS headquarters was overstated by about \$11 million. We are not making any recommendations because management has taken or plans corrective action. Such action, however, will not preclude potential overstatement in the FY 1998 President's budget, because the actions occurred too late to have an effect on the FY 1996 obligations, which is the basis for the FY 1998 budget. However, on December 17, 1996, the Under Secretary of Defense (Comptroller) issued Program Budget Decision No. 018C reducing the overall DoDEA budget for FY 1998 by \$2.5 million and for FY 1999 by \$2.6 million because of overstated student enrollment.

Management Comments on the Finding and Audit Response

Management Comments. The Chief, Internal Review and Audit Oversight Office, DoDEA, provided written comments on the draft report. DoDEA stated that between FY 1995 and FY 1997, student enrollment decreased by 175, which would have generated less than \$273,000 in savings not \$5.6 million. DoDEA believed that management actions taken to ensure proper reporting of student data precluded the potential overstatement of the FY 1998 President's budget because of overstated student enrollment. DoDEA also stated that if it accepts the conclusion that if O&M funds are overstated by an amount and Procurement funds understated by the same amount, the effect is zero sum for resources required. In addition, DoDEA stated that the DDESS schools used normal procurement procedures to acquire ADP equipment because the schools chose from the multiple procurement channels that were available during the period of the audit. DoDEA further stated that the initial funding for the school districts is the basic per pupil cost, which makes comparison with

Basis for FY 1997 Budget for Operation and Maintenance Funds

local educational agencies possible. Finally, DoDEA stated that reconciliation between source documents and the various accounting reports is a function of the Defense Finance and Accounting Service.

Audit Response. We reviewed student enrollment data as of September 30, 1993. However, the DoDEA comments compared our results to the period between FY 1995 and FY 1997. The overstatement in the student data at the school districts we reviewed was 3.4 percent, not the 0.5 percent that DoDEA compared our audit result to. Using the 175 students and a savings of \$273,000 identified in the DoDEA response, the DDESS cost per pupil would have been \$1,560. This is less than the cost per pupil of \$7,925 that DDESS used in its FY 1997 President's budget.

If O&M funds are used for acquisitions that should have been funded with Procurement funds, the result is not zero sum for resources required, as DoDEA stated. The result is a potential Antideficiency Act violation.

DDESS school districts did not follow the established DoDEA procurement channels to acquire ADP equipment at yearend. The local contracting offices at the host installations and the Fleet Industrial Supply Center, Philadelphia Office, were the only established DoDEA channels for acquiring ADP equipment for the DDESS school districts. The host installations' fees were established in the interservice support agreements with the school districts. In FY 1995, DDESS paid \$60,000 to the Fleet Industrial Supply Center for contract support. However, two school districts circumvented the established procurement procedures and acquired ADP equipment with yearend funds at an additional fee to the school districts.

The total cost of educating students at the DDESS schools includes all operating expenses funded with O&M funds. DDESS used that method to present its cost per pupil in all its budget submissions. As a result, the cost per pupil at the school districts should not be limited to the initial O&M funds allocated to them. Just as local education agencies do, DoDEA has separate budgets for facilities and capital expenditures such as Military Construction funds and Procurement funds, which are not part of normal operating costs and are not included in the cost per pupil calculations. DoDEA can achieve accurate comparison of the cost per pupil at DDESS to the local education agencies if it includes all operating expenses in its calculations.

DoD Financial Management Regulation, volume 6, chapter 2, states that DoD Components that are customers of the Defense Finance and Accounting Service (including DoDEA) are responsible for ensuring the accuracy, completeness, timeliness, and documentary support for all data generated by the customer (DoDEA). The customer is also responsible if the same data is input electronically into finance and accounting systems or submitted to the Defense

Basis for FY 1997 Budget for Operation and Maintenance Funds

Finance and Accounting Service for input and recording in the finance and accounting systems and included in financial reports. Therefore, reconciliation of source documents to financial reports for accuracy is the responsibility of DoDEA.

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Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the FY 1995 Domestic Schools Obligation Report and supporting documentation, including contracts and requisitions at 11 of 16 DDESS school districts and DDESS Headquarters. We also reviewed DDESS FY 1995 Summary of Price and Program Growth (OP-32) and Budget Execution (Standard Form 1176) reports. We traced the data on the reports to the supporting documentation at the 11 school districts we visited and at DDESS Headquarters. The 11 school districts and the DDESS Headquarters obligated \$207.2 million of the \$284.3 million in O&M funds obligated by DDESS in FY 1995. We evaluated the basis of the DDESS O&M budget submission included in the DoDEA FY 1997 President's budget submission. The DDESS FY 1997 O&M budget submission was based on FY 1995 obligations. We reviewed DoD and DoDEA budget execution and funds allocation policies and procedures. We also interviewed operating personnel at DoDEA Headquarters and DDESS. Additionally, we reviewed school years 1993/1994 and 1994/1995 student enrollment data maintained at the schools, and submitted to DDESS Headquarters.

Audit Standards. This financial-related audit was performed from January through August 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We did not use statistical sampling in performing this audit. However, we considered the recent history of the reported cost per pupil at the DDESS school districts we visited.

Use of Computer-Processed Data. We relied on computer-processed data from the Standard Accounting and Reporting System. We did not perform tests of the system's general and application controls to confirm the reliability of the data. We did verify the data on the Standard Accounting and Reporting System reports to source documents at the schools we visited. There were significant differences between the amounts reported by cost category on the Standard Accounting and Reporting System reports and source documents. The reliability of the data, however, did not materially affect the results of our audit.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Appendix B. Summary of Prior Audits and Other Reviews

During the past 5 years, the General Accounting Office has testified before Congress and the Office of the Inspector General, DoD, has issued four other reports and plans to issue another report relating to DoDEA financial management.

General Accounting Office

General Accounting Office 1994 Testimony, T-HEHS-94-155. In April 1994, the General Accounting Office testified before the Subcommittee on Readiness, House Committee on Armed Services, on military dependents' education and potential savings in the Department of Defense Dependents Schools. The General Accounting Office stated that because of underlying weaknesses in the DoDEA accounting and information systems, it was unable to verify the accuracy of data obtained during its review.

Inspector General, DoD

Inspector General, DoD, Report No. 97-082, "Property Accountability for the Department of Defense Education Activity," January 28, 1997. The report stated that Department of Defense Dependents Schools, Europe region, controls over property were inadequate and related property records were not reliable. As a result, over \$30.3 million of accountable property was not located or was improperly accounted for. The \$30.3 million is based on acquisition value. The depreciated value would be less. In addition, the Europe region could not be sure that the property was not lost or stolen. The report recommended that the Director, DoDEA, establish management controls to conduct and account for physical inventories, promptly investigate physical inventory losses, and take proper actions if the investigations result in evidence of negligence or abuse.

The DoDEA agreed to make accountability a high interest area by immediately expanding its strategic plan focus to include property accountability. It also agreed to establish quality review teams to ensure that equipment inventories are accurate and to develop a quality control program. DoDEA is distributing the reports of survey regulation to personnel, initiating report of survey training, and has instituted a quarterly review of all reports of survey to determine whether losses are investigated in an appropriate and timely manner.

Inspector General, DoD, Report No. 97-078, Potential Antideficiency Act Violations at the Department of Defense Education Activity," January 23, 1997. The report discussed the use of O&M funds, rather than Procurement

Appendix B. Summary of Prior Audits and Other Reviews

funds, to acquire local area networks at DoDEA schools. The report recommended that the Under Secretary of Defense (Comptroller) direct initiation of an investigation of the potential Antideficiency Act violations. The report also recommended that the Director, DoDEA, establish controls to discontinue the acquisition and installation of investment items with O&M funds and make the necessary accounting adjustments to deobligate the O&M funds used for local area network acquisitions and to obligate Procurement funds.

DoDEA generally agreed with the recommendations but did not agree on the amount to be deobligated. In addition, DoDEA stated that it has sufficient Procurement funds to cover the amounts to be obligated for the O&M funds. As a result, DoDEA stated that Antideficiency Act violations have not occurred. We have asked the Under Secretary of Defense (Comptroller) to request initiation of the Antideficiency Act violations. In addition, as a result of meetings with the Under Secretary of Defense (Comptroller), DoD General Counsel, and the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education), we added an additional recommendation to the report. We recommended that the Under Secretary of Defense (Comptroller) and Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) jointly study and provide specific guidance on the definition, acquisition and appropriate funding for automated data processing equipment including local area networks within DoD.

Inspector General, DoD, Report No. 96-181, "Management Control Environment for the Department of Defense Education Activity," June 28, 1996. The report discussed the DoDEA control environment and whether the financial system could produce reliable financial information needed to prepare financial statements required by the Chief Financial Officers Act of 1990. The report stated that DoDEA did not have assurance that its internal policies and procedures were being implemented and achieved, that revenues and expenditures were properly recorded and reported, and that assets were properly managed. DoDEA did not have a general ledger accounting system, did not adequately implement its Management Control Program, and did not review accounting system controls as required. The Assistant Secretary of Defense (Force Management Policy) and DoDEA concurred with the recommendations and agreed to take appropriate actions, including a plan of action with milestone dates to be developed and provided to us.

Inspector General, DoD, Report No. 96-159, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," June 13, 1996. The report discussed potential Antideficiency Act violations in FY 1995 O&M funds and FYs 1987 and 1993 Foreign Currency Fluctuation, Construction funds. The report also discussed the management controls needed to ensure that adequate funds are available to prevent violations of the Antideficiency Act. The report stated that DoDEA used \$4.1 million, and potentially some or all of another \$24.9 million of O&M

Appendix B. Summary of Prior Audits and Other Reviews

funds, rather than Procurement funds, to purchase capital equipment and software. DoDEA generally concurred with the recommendations, and agreed to take appropriate actions. An investigation of potential Antideficiency Act violations in Foreign Currency Fluctuation, Construction funds was ongoing at the time of this report.

Appendix C. Funding Based on Student Data Reported to Domestic Dependent Elementary and Secondary Schools Headquarters

<u>School District</u>	<u>School Reported Student Data¹</u>	<u>Audited Student Data¹</u>	<u>Difference</u>	<u>Cost Per Pupil</u>	<u>Amount Over- Funded</u>
Camp Lejeune	3,605 ²	2,894 ²	711	\$6,562	\$4,665,582
Fort Benning	3,430	3,430	0	5,871	0
Fort Bragg	4,547	4,543	4	5,841	23,364
Fort Campbell	4,539 ³	4,503 ³	36	5,969	214,884
Fort Knox	3,979	3,961	18	7,018	126,180
Fort McClellan	383	381	2	6,501	13,002
Fort Rucker	1,102 ⁴	1,034 ⁴	68	5,455	370,940
Fort Stewart	1,646	1,646	0	6,578	0
Maxwell	493	443	50	5,903	295,150
Air Force Base					
Quantico Marine	1,257	1,251	6	7,558	45,348
Corps Base					
Warner Robins	930	930	0	7,793	0
Air Force Base					
Total					\$5,642,306

¹ School districts reported either enrollment or membership. We verified the reported data to source documents.

² School district personnel could not provide support for two schools.

³ Adjustments were not made for students that withdrew from school during the school year.

⁴ Included 68 pre-school children who went to school daily for only one-half of a day, but were counted as full-time students. Used the same data from FY 1994 through FY 1997 budget years.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Force Management Policy)
Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Director, Department of Defense Education Activity
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information and Technology,
Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Department of Defense Education Activity Comments



DEPARTMENT OF DEFENSE
EDUCATION ACTIVITY
4040 NORTH FAIRFAX DRIVE
ARLINGTON, VIRGINIA 22203-1635

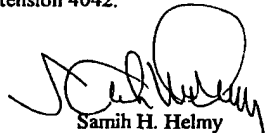
MAR 13 1997

MEMORANDUM FOR MR. SHELTON R. YOUNG, DIRECTOR, LOGISTICS
SUPPORT DIRECTORATE, OFFICE OF THE
INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Draft Audit Report on the FY 1997 President's Budget for the Domestic
Dependent Elementary and Secondary Schools (Project No. 6LA-2011.02)

We have reviewed the subject draft report and are providing comments to illustrate management's initiative toward closing the audit observations. The attached comments clarify issues raised in the report and other matters of interest brought to management's attention in the report.

Thank you for the opportunity to submit our comments. I would appreciate your assistance in having these comments incorporated in the final audit report. I am available to clarify any matters before the final report is issued. If you have questions, please contact me on 696-9052, extension 4042.


Samih H. Helmy
Chief, Internal Review and
Audit Oversight Office

Attachment:
As stated

Comments on Proposed Audit Report, FY 1997 President's Budget
for the Domestic Dependent Elementary and Secondary Schools
(DDESS), Project No. 6LA-2011.02

The DDESS FY 1997 President's Budget for O&M was overstated by about \$11 million for 11 of the 16 DDESS school districts and DDESS Headquarters. The condition occurred because the DDESS used actual FY 1995 obligations to justify the FY 1997 President's Budget.

(Page 4) \$5.6 million the school districts we visited received and spent because of overstated or inconsistent student data used to justify their budgets.

Response: The student data used to justify budgets cannot vary more than 2 percent, which is considered an acceptable rate of error, without being investigated by Headquarters. Between FY 1995 and FY 1997 there was a decrease of 175 students, a change of -0.5 percent. The 175 students would generate less than \$273,000 in savings, not \$5.6 million.

Major student data changes caused by policy changes, program expansions, and base closures are programmed into the budget at Headquarters level, not at the local level. The districts are funded based on the prior year's enrollment due to the incongruity of the fiscal year to the school year. Only increases in enrollment are funded in the year of budget execution after the actual data is received. Student enrollment decreases are reflected in the next budget year in that hiring of personnel to support the prior year student enrollment has already occurred before the current fiscal year's student report is available.

In the specific instance where housing will be renovated and enrollment will be affected for only a short period, no adjustment is made. Teachers remain on the staff rather than having a reduction-in-force (RIF) and then rehiring which is a costly alternative. It is more economical to retain the teacher and to experience a lower pupil-teacher ratio for the period of the housing renovation. The decrease of 50 students among 7 grades may not qualify for reducing even one teacher. Therefore, only student supplies would generate savings.

(Page 4) \$5 million of unneeded yearend spending, \$458,000 in purchases of goods or services without a bona fide need and \$241,618 used to fund prior year expenses, and

Response: In a previous report, the DoD IG agreed to withdraw the bona fide need finding in that the current DoDEA budget formulation process meets the DoD policy that requires supporting documentation for an organization's budget. As required by the DoD policy, DDESS does maintain supporting documentation for budget requirements. Additionally, subordinate organizations are encouraged to identify unfinanced requirements to be submitted during the fiscal year that are not included in the authorized funding. This process satisfies the bona fide need rule.

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(Page 4) funds for acquisition of items that should have been purchased with Procurement funds.

Response: Corrective action has been taken to use Procurement funds for items that were incorrectly acquired with Operation and Maintenance funds and vice versa. A policy memorandum providing specific guidance on how to determine the appropriate funding source for information technology items was issued October 16, 1996, based on the DoDEA General Counsel opinion dated August 2, 1996.

(Page 6) As a result of our audit, the Director, DDESS issued a memorandum on July 9, 1996, to the school districts. The memorandum requested the school districts to report average daily membership, effective school year 1996/1997. Average daily membership is the aggregate membership of a school district during a reporting period divided by the number of days in the period. The memorandum, however, will not preclude potential overstatement in the FY 1998 President's budget, because it was issued too late to have an effect on the FY 1996 obligations, which is the basis for the FY 1998 budget.

Response: In accordance with the memo, the September 30, 1996, ADM was reported by the school districts and is reflected in the actual FY 1997 enrollment. This is reflected in the February 1997 and FY 1998 President's Budget and becomes the baseline for enrollment data for FY 1998 and 1999. DDESS lapsed \$1.6 million in FY 1996 budget authority. The FY 1996 funds that lapsed are more than an average daily membership adjustment would have been (\$273,000 discussed on page 1); therefore, the baseline reflected in FY 1996 is not overstated for the FY 1998 budget.

(Page 7) The school districts did not use normal procurement procedures to purchase ADP equipment.

Response: During the time period being reviewed, there were multiple procurement channels within the Department of Defense. DDESS schools were able to choose to use multiple procurement channels to include local contracting offices, DISC, DoDDS or other agencies which may be available. The fact that one procurement office had established a cutoff date to accept new requests, did not preclude the use of other offices. Procurement procedures were not circumvented. The schools simply made use of an alternative source to accomplish the contract.

(Page 7) The Navy charged the Fort Stewart school district a procurement fee of \$56,000 to purchase \$210,000 in ADP equipment.

Response: Following a thorough review of the facts regarding the purchase of the ADP by the Fort Stewart school district, it was confirmed that a service fee of 20 percent was paid to the Naval Computer & Telecommunications Station, Pensacola, Florida. On December 4, 1996, a policy memorandum was issued by the Director that established a threshold of 4 percent of the dollar value as an acceptable contracting fee. The policy further states that the local contracting office and Philadelphia are the only authorized contracting offices for DDESS. In addition, the

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policy requires that the Director's approval be obtained prior to submitting a request to the contracting office when the fee exceeds 4 percent.

(Page 7) On August 8, 1995, the Camp Lejeune school district was given \$458,000 of FY 1995 O&M funds to "alleviate next year's anticipated shortfall in the FY 1996 O&M budget." The school system used the funds to procure items outlined in its FY 1996 budget.

Again, the items funded were on the unfunded requirements list for FY 1995 as a bona fide need. (See response above, page 4.)

(Page 7) In FY 1995, DDESS Headquarters also improperly used \$241,618 in O&M funds to pay for FY 1994 school bus transportation contracts. We did not observe any potential Antideficiency Act violation because of the DDESS funding of prior year obligations with current year funds. However, the improper funding increased the basis for the FY 1997 President's budget, thus overstating it.

Response: The school bus transportation contracts state the amount to be funded for each fiscal year. Each fiscal year is budgeted separately regardless of the prior year's amount. Increases and decreases to the contracts are reflected in the "Program Increases/Decreases" column of the budget submission.

(Page 7-8) At least two of the school districts reviewed funded school bus transportation for August and September of the school year using current fiscal year funds and the remainder of the school year with funds for another fiscal year. The other school districts funded school bus transportation for the whole school year with funds for one fiscal year. According to the General Accounting Office (GAO) Appropriation Law, volume 1, chapter 5, when services are continuing and recurring in nature, the contract is severable and the services must be charged to the fiscal year(s) in which they are rendered.

Response: DDESS will reissue copies of the GAO guidance to ensure compliance and provide training at the June 1997 Budget Conference.

(Page 8) Excessive yearend spending was also discussed in Inspector General, DoD, Report No. 96-181, "Management Control Environment for the Department of Defense Education Activity," June 28, 1996. In response to the audit report, DoDEA stated that to satisfy the bona fide need rule, it will encourage subordinate organizations to identify unfinanced requirements during the fiscal year that are not included in the authorized funding. In addition, DoDEA stated that it will implement a policy to allow the headquarters divisions to reprogram funds between program codes for items less than \$25,000 and then only during the months of August and September. This action may reduce the excessive yearend spending at DDESS.

Response: DDESS has a procedure to identify unfinanced requirements during the fiscal year that are not included in the authorized funding. It is those unfunded requirements that are

Department of Defense Education Activity Comments

funded on a priority basis at yearend. (NOTE: DDESS does not have headquarters divisions similar to DoDDS, nor does it have a prohibition on reprogramming at the district level.)

(Page 8) The DDESS acquired investment items with over \$4.3 million in O&M funds, rather than Procurement funds. DDESS improperly used the O&M funds to acquire investment items, which overstated the FY 1995 O&M obligations. Because the FY 1995 obligations were used as a basis for the FY 1997 President's budget, the FY 1997 budget was overstated.

Response: The Director's November 27, 1996 memorandum, subject: Response to Draft Proposed Audit Report, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," (Project No. 6LA-2011.02) dated October 11, 1996, provides a summary of the adjustments that were required for FY 1995. The O&M was reduced \$-798,610 of \$4,181,404 and the Procurement budget increased. If we accept the conclusion that the O&M is then overstated by an amount, then it follows that the Procurement budget is understated, resulting in a zero sum for resources required.

(Page 9) The cost per pupil that the DoDEA budget officer computed for the school districts were understated.

Response: The initial funding for the school districts is the basic per pupil costs. Centrally managed funds for maintenance and repair projects, and one-time funding for supplies and equipment to support new education programs or facility projects are not included. This is standard practice with local education agencies (LEAs). In fact, they have separate budgets for facilities, transportation, and capital expenditures that are not included as part of the per pupil cost. The school district basic per pupil cost makes comparison with the LEAs possible. The DDESS per pupil cost does include all funds divided by the average daily membership.

(Page 9) However, operating expenses reported in STARS did not agree with OP32 by cost element.)

Response: DDESS issued copies of the DoD guidance (STARS Manual, 7/11/94) and will provide training at the June 1997 Budget Conference to ensure compliance in the proper collecting and reporting of expenses by cost element.

(Page 10) The amounts reported in STARS as salary expenses for the 11 school districts we visited did not agree with the amounts on the source documents. However, the school districts reported the amounts from STARS on their OP-32 reports rather than performing a reconciliation between the amounts on the STARS reports and the source documents. A reconciliation between STARS and the Standard Form 1176 was not performed to determine the reason for the differences.

Response: The reconciliation between source documents and various accounting reports is a Defense Finance and Accounting Service (DFAS) function.

(Page 10) DDESS did not have standard operating policy and procedures for coding and classifying transactions into STARS.

Response: DDESS issued copies of the DoD guidance (STARS Manual, 7/11/94) and will provide training at the June 1997 Budget Conference to ensure compliance in the proper collecting and reporting of expenses by cost element.

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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